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KORN/FERRY INTERNATIONAL

1987 ANNUAL BOARD OF DIRECTORS STUDY

OF RETAIL COMPANIES

KORN/FERRY INTERNATIONAL

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Introduction

For the past 14 years, Korn/Ferry International has surveyed 1,000 of America's leading corporations to identify significant trends at the board level and to gain insight into the structure and function of the corporate board today. As part of our annual survey, we make a special study of the data pertaining to the boards of retail company participants.

This year, of the 532 corporations that responded to our survey, five percent were retail companies. Industrial and service corporations accounted for 70 percent of the total, banks and other financial institutions, 16 percent and 10 percent were insurance companies.

As in the past two years, we found that discussions of important board matters centered on two interrelated factors--concern over difficulties in recruiting and retaining qualified directors and issues of director liability.

The majority of our retail respondents (68 percent) said there is still a problem finding and attracting qualified outside directors. And 82 percent (more than in any other industry group) said the problem has <u>not</u> diminished since last year.

Current CEOs of retailing companies are much less likely than the average CEO to accept an additional board seat. Only 27 percent said they would do so, compared with 55 percent of all the CEOs responding to the survey. Thirty-six percent of retail CEOs report having turned down the offer of a board seat within the past year, compared with 42 percent of all CEOs.

Many, however, feel that increased compensation and benefits are the keys to attracting potential directors. Forty-one percent said increasing compensation would help in board recruiting and 46 percent said more benefits were important.

Liability Crisis

Retail boards appear to be more subject to liability suits than other companies. Twenty-three percent said their board or their directors had been sued within the past three years, more than any other group participating in the study. Overall, 17 percent of the companies surveyed were sued in the past three years.

Nearly three-quarters (72 percent) believe that the Delaware statute limiting director liability will at least partially rectify the situation. Of the retail companies surveyed, 32 percent are asking shareholders to approve such a measure. Of these, 71 percent want to eliminate director liability entirely.

Only 14 percent are considering measures that only limit liability.

In the wake of these liability pressures, and perhaps because of them, 59 percent of retail companies said their directors are probing for more information on strategic plans. Of these, 100 percent of the companies said their board members were seeking information particularly in the critical area of shareholder value.

These are some of the important issues that have emerged from this year's study of retail boards. A more detailed discussion follows in the Summary of Findings.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made with and all the participants in our study.

1. **Size of Board (Table 2)**

   Retail boards consist of an average of 13 members, the same as last year and equal to the number reported for all respondents. As in 1985, the largest retailers (companies with revenues of $2 billion or more) average 14 directors.

2. **Inside Directors vs. Outside Directors (Table 2)**

   The retail boards average four inside and nine outside directors, one more inside director and one less outside director than the boards of all respondents. Five years ago, retailers reported an average of five inside and eight outside directors.

3. **Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)**

   The number of retail respondents with chairmen who also serve as chief executive officer continues to rise. Ninety-one percent of the retail respondents report this relationship, up from 86 percent last year, and 75 percent in 1984, and more than any other responding group. Thirty-six percent note that their chief executive officer

is also their chief operating officer, an increase from 28 percent in 1985.

4. **Board Composition (Table 4)**

With their strong preference for outside representation, retailers rely on academicians (73 percent) and CEOs/COOs of other companies (64 percent) as the primary sources for outside directors. (Senior executives of other companies declined to 55 percent from 79 percent in 1985 as a result of the addition of the new category "CEO/COO of Other Companies"). Retired executives of other companies are another important source for outside directors, although their representation declined to 59 percent, from 67 percent in 1982 and 69 percent last year.

Fifty-nine percent of the retailers have women on their boards -- well above the 43 percent for all respondents, but a decrease from last year's representation of 62 percent for retail boards (Table 4A). Outside women directors are drawn primarily from academia and the ranks of senior executives of other companies (Table 4B). Representation of ethnic minorities jumped to 55 percent of retail boards, compared with 31 percent last year, and 30 percent reported by all respondents. Minorities are drawn primarily from academia and senior executives and CEOs/COOs of other companies.

Other groups that are highly represented on retail boards include retired or previously employed corporate officers (41 percent), major shareholders who are not officers of the company (36 percent), and attorneys (32 percent).

In 1986, the following major shifts in the composition of retail boards should be noted:

-Former government officials decreased from 28 percent in 1985 to 14 percent in 1986.

-Non-U.S. citizens fell from 13 percent in 1982 and 10 percent in 1985 to zero this year.

-International executives who also were not represented on retailing boards in 1986, fell from 10 percent in 1982 and seven percent in 1985.

On the other hand, groups experiencing increases in representation since 1982 include:

-Academicians (from 47 percent in 1982 and 52 percent in 1985 to 73 percent in 1986).

-"Professional" directors (from 13 percent in 1982 and 38 percent in 1985 to 46 percent this year).

5. Committees (Table 5)

The audit, compensation/personnel and executive committees continue to be the most widely reported standing committees among retailers as they are among all respondents. All retailing companies reported use of an audit committee,

while 96 percent reported a compensation/personnel committee (up from 86 percent in 1985), and 82 percent reported an executive committee (up from 79 percent in 1985) (Table 5A). Sixty-eight percent of the retailers have a nominating committee, up from 66 percent last year, and compared with 58 percent for all respondents. Although use of the finance and benefits committees declined from 1985 levels, their occurrence is higher than the percentages reported by all respondents. As in 1985, the compensation/personnel, executive and nominating committees play a predominant role in the management succession process in retail organizations.

The executive, finance and public affairs committees are the largest, averaging six directors, each increasing from the number of members reported last year. Overall, committee size increased this year, compared with 1985 when committees decreased in size. The corporate ethics committee, which reported having no members in 1985, gained one inside and four outside directors. The audit, compensation/personnel and benefits committees are composed entirely of outside directors (Table 5B).

Committees averaged between two and four meetings this year. The compensation/personnel and finance committees increased their average number of meetings by one (Table 5C). Forty-six percent of the retail respondents feel that

in order to improve productivity, there is a trend toward more committee-assigned tasks.

6. **Compensation (Table 6)**

Eighty-five percent of the participating retailers compensate their outside directors on an annual plus per-meeting fee basis. Ten percent pay an annual fee only and only one company pays a per-meeting fee only.

-Annual Plus Per-Meeting Fee (85 percent of the respondents)

The retail respondents increased total average annual compensation by a modest $108 from $22,141 last year to $22,249 this year. However, this is nine percent more than the total compensation for all respondents ($20,462). The total is comprised of an average annual fee of $16,488 and an average per-meeting fee of $738. The percentage of retailing directors who earn $25,000 or more continued to increase from the 12 percent reported in 1983 to 44 percent this year. Five years ago, the average compensation for all retailers was reported at $16,950.

The upper quartile average for retailers, included for comparative purposes, is $30,875, compared with the average $28,715 for all respondents and the upper quartile average of $27,520 reported by retailers in 1985.

-Annual Fee Only

For retaling directors compensated with an annual fee only, the average fee is $15,000, the same as last year and 24 percent less than the $19,744 reported by all respondents.

7. **Committee Compensation (Table 7)**

Eighty-six percent of the retail respondents pay their outside directors additionally for serving on committees compared with 83 percent for all respondents. While committee members generally receive a per-meeting fee, most committee chairmen are compensated with an annual fee (Table 7A).

-Total Annual Compensation

Including committee fees, the average total annual compensation for outside directors of retailing companies was reported at $25,999, compared with the overall average of $23,676. The upper quartile average for retailers is $41,663 compared with the upper quartile average of $35,960 for all respondents (Table 7B).

8. **Additional Compensation Information (Table 8)**

Eight retailers or 36 percent of the respondents raised outside director fees in 1986, down from 43 percent last year. For those who posted increases, the average amount was reported at $2,614, significantly lower than the $4,492 increase reported by retailers last year, but slightly

higher than the average increase of $2,520 reported by retailers in 1984. In 1986, the average increase for all respondents was $2,923. Three retailers or 14 percent project an increase in board fees in the coming year, averaging $1,500.

Average total compensation for the single highest paid outside retail director was an average $27,051 in 1986 for all board services exclusive of any consulting arrangements. This represents a 43 percent increase over the 1982 average of $18,980. The upper quartile average in this category is $46,080 for retail directors, slightly less than the average $46,665 for all directors, but 22 percent higher than the upper quartile average reported by retailers in 1985 (Table 8A). Four of the retail respondents have outside directors who also receive consulting fees. Eighty-six percent believe that their outside directors are adequately compensated, down from 96 percent last year, but compared with the overall average of 75 percent. As in 1985, retailers reported the most satisfaction with director compensation.

Sixty-four percent of the participants of retail companies state that their board chairman has the primary responsibility for establishing board compensation. The compensation committee is responsible at 46 percent of the companies. And in 14 percent of the cases, the executive

committee is responsible.

Fifty-nine percent allow their outside directors to defer board fees until retirement, up from 43 percent in 1985. Twenty-three percent provide pension/retirement income plans (up from 13 percent five years ago). Travel expense reimbursement and directors' liability insurance are commonly included and reported by 86 percent and 82 percent, respectively. Other benefits include matching educational gifts programs (32 percent), accident insurance (46 percent) and life insurance, now offered by 27 percent of the respondents, up from 11 percent in 1985 (Table 8B).

-Stock Ownership

Eighty-six percent of the respondents believe that all directors should own some company stock, the same as reported last year. Of the 86 percent who believe that all directors should own some shares of company stock, the average minimum number of shares indicated was 282.

Retail company respondents reported that all of their outside directors do, in fact, own some company stock.

-Liability Insurance

Ninety-one percent of the retailers currently have directors' liability insurance. Interestingly, 19 percent have been denied coverage within the year, more than any

responding group. Eighty-five percent of the retail companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up from 64 percent last year. The average premium increase jumped to 744 percent, compared with the average of 337 percent reported in 1985. The percent of increase for retailers was greater than all other respondents.

Thirty-five percent of retail boards experienced a decrease in total dollar coverage up from 11 percent last year, but compared with 50 percent for all companies. The decrease in total dollar coverage was smallest for retailers, who averaged a 29 percent decline (from $35 million to $24 million), compared with a 43 percent decrease (from $42 million to $24 million) for all companies. This may be due, in fact, to the 56 percent decline reported last year by retailers, the highest of all respondents.

Nineteen percent of retailing companies are considering self-insurance, compared with the overall average of 30 percent. When asked if respondents had been approached to join a consortium, 46 percent of the retailers reported in the affirmative, and 44 percent would consider joining if asked.

9. Board Practices and Policies (Table 9)

The boards of retailing companies average seven regular board meetings per year -- one less than the average for all respondents, but the same number as reported for retailers last year.

An outside director of a retail company devoted an average 86 hours on board-related business, including time for review, preparation, attendance and travel (Table 9A). The time has decreased from 93 hours reported five years ago and 105 hours reported in 1985. In 1986, the average for all directors was 114 hours.

Board chairmen of retailing companies spend considerable time on board-related activities, devoting 140 hours, an increase from the 107 hours reported by the chairmen last year. The upper quartile average hours for retail directors was 134, down from 198 hours last year and compared with 204 hours reported by all respondents.

Based on reported compensation data, retailing directors earned an hourly rate of $259, up 23 percent from the 1985 hourly rate. Since 1984, retailers have received the highest hourly rate of all respondents.

With committee fees taken into account, the average hourly rate for outside directors of retailing companies is $302, compared with $208 for all outside directors.

Twenty-three percent of the retail respondents had an outside director resign from the board, down considerably from the 43 percent reported last year. Retirement was the major reason for resigning, cited by 40 percent. Fifty-five percent added new outside directors to their boards, compared with 47 percent both last year and five years ago.

In selecting and identifying new directors, retailers continue to predominantly use the traditional means of recommendations of the chairmen and other board members, but the use of the nominating committee continues to be strong. This year, 68 percent cited its use in the selection process, up from 47 percent in 1982 (Table 9B).

According to 91 percent of the retailers, broad management experience is the primary consideration in asking prospective directors to sit on the board, followed by personal stature (64 percent) and strong financial skills (46 percent). Thirty-two percent of the retailers had at least one prospective director decline an invitation to serve on their board. This is up considerably from the 17 percent that was reported last year (and compared with 22

percent for all respondents), but slightly less than the 33 percent reported three years ago by retailers. Time commitment was the primary reason cited for declining such an invitation (Table 9C).

Sixty-four percent of the retailers have a mandatory retirement age, compared with 77 percent for all respondents. The average retirement age is 67 for inside directors, 70 for outside directors, and 69 for board chairmen.

The average age of the CEO at a retailing company is 54, and 58 for the respondents' outside directors. The average age of the youngest outside director is 49; the oldest, 69.

10. Board Issues (Table 10)

As with all respondents, financial results is the most important issue facing retail boards today. When asked to rank the relative importance of various issues, 91 percent ranked it first, second or third, up from 66 percent in 1985 and unlike last year when retailers rated strategic planning above the other issues. Eighty-two percent placed strategic planning first, second or third, up from 69 percent in 1985. Other significant issues include financing/capitalization (41 percent), corporate takeovers (23 percent), and management succession (18 percent).

Seventy-seven percent of the respondents spend the most board time on issues related to financial results. Fifty-five percent are most occupied with strategic planning, followed by the issue of financing/capitalization (23 percent).

When asked to project rankings for the same issues five years from now, strategic planning and financial results were cited as equal in importance (77 percent). Financing/capitalization and management succession followed with 41 percent and 32 percent, respectively.

TABLE 1 - PARTICIPATING COMPANIES

Twenty-four of America's major retailers participated in our Fourteenth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	11	45.8%
$2 billion and over	13	54.2%
TOTAL	24	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	18	75.0%
American Stock Exchange	3	12.5%
Over-The-Counter	3	12.5%
TOTAL	24	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under $2 billion	4	7	11
$2 billion and over	4	10	14
Average	4	9	13

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	90.9%	36.4%
No	9.1%	63.6%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1982 Retailers	1986 Retailers	1986 All Companies Surveyed
CEO/COO (other companies)	-----	63.6%	74.2%
Retired Executive (other companies)	66.7%	59.1%	67.4%
Academician	46.7%	72.7%	49.7%
Senior Executives (other companies)	83.3%	54.5%	46.0%
Woman	63.3%	59.1%	42.9%
Retired or Previously Employed Corporate Officer	46.7%	40.9%	40.2%
Attorney (does not provide legal services to company)	30.0%	31.8%	35.3%
Major Shareholder (not officer of the company)	36.7%	36.4%	30.9%
Ethnic Minority Representative	33.3%	54.5%	29.5%
Former Government Official	10.0%	13.6%	27.6%
"Professional" Director	13.3%	45.5%	25.0%
Commercial Banker	20.0%	18.2%	25.0%
Investment Banker	20.0%	22.7%	24.3%
Attorney (provides legal services to the company)	30.0%	31.8%	23.7%
Non-U.S. Citizen	13.3%	----	13.0%
International Executive (American)	10.0%	----	6.2%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	46.2%	25.0%
Senior Executives (other companies)	15.4%	16.7%
CEO/COO (other companies)	7.7%	16.7%
Attorneys (do not provide legal services)	7.7%	8.3%
Former Government Officials	7.7%	----

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1982 Retailers	1986 Retailers	1986 All Companies Surveyed
Audit	96.7%	100.0%	97.5%
Compensation/Personnel	83.3%	95.5%	90.5%
Executive	83.3%	81.8%	80.4%
Nominating	63.3%	68.2%	57.9%
Finance	46.7%	36.4%	34.6%
Benefits	36.7%	31.8%	25.0%
Public Affairs	16.7%	22.7%	9.9%
Corporate Ethics	16.7%	4.5%	7.2%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	5	5
Compensation/Personnel	0	4	4
Executive	2	3	6
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public Affairs	1	5	6
Corporate Ethics	1	4	5

5C. How many committee meetings were held during the past twelve months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	3
Compensation/Personnel	3	3	4
Executive	4	2	2
Nominating	1	2	2
Finance	2	3	4
Benefits	3	3	3
Public Affairs	2	3	3
Corporate Ethics	1	0	1

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (85.0 percent of the respondents)

Annual Fee Amount	%
Under - $ 7,000	15.8%
$ 7,000 - $10,999	5.2%
$11,000 - $13,999	15.8%
$14,000 - $16,999	15.8%
$17,000 - $19,999	15.8%
$20,000 - $25,000	26.3%
$25,000 and over	5.3%
TOTAL	100.0%
Average Total Annual Fee	$16,488

PLUS

Amount Per Meeting	%
Under $500	5.3%
$500 - $599	21.1%
$600 - $799	36.8%
$800 and over	36.8%
TOTAL	100.0%
Average Per-Meeting Fee	$738

EQUALS

Total Annual Compensation	%
Under $ 7,000	5.6%
$ 7,000 - $10,999	5.6%
$11,000 - $13,999	5.6%
$14,000 - $16,999	11.1%
$17,000 - $19,999	11.1%
$20,000 - $24,999	16.6%
$25,000 and over	44.4%
TOTAL	100.0%
Average Total Annual Compensation	$22,249

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$22,249	$30,875
Banks and other Financial Institutions	$18,471	$27,519
Insurance companies	$18,863	$26,530
Service companies	$20,653	$28,542
Industrials		
Under $200 million	$14,207	$22,768
$200 million - $399 million	$15,560	$22,386
$400 million - $599 million	$17,011	$22,060
$600 million - $999 million	$20,593	$27,188
$1 billion - $2.999 billion	$21,279	$27,223
$3 billion - $4.999 billion	$26,447	$32,270
$5 billion and over	$28,820	$34,671
Average	$20,462	$28,715

TABLE 7 - COMMITTEE COMPENSATION

7A. What is the average committee fee for outside directors?

Committee	Member Average Per-Meeting Fee	Chairman Average Retainer
Audit	$ 692	$ 3,056
Compensation/Personnel	$ 703	$ 3,063
Executive	$ 642	$14,000
Nominating	$ 712	$ 2,500
Finance	$ 779	$ 1,833
Benefit	$ 663	$ 2,000

7B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile
Retailers	$ 25,999	$ 41,663
Banks and other financial institutions	$ 21,500	$ 33,168
Insurance companies	$ 24,406	$ 38,073
Service companies	$ 23,482	$ 34,907
Industrials		
Under $200 million	$ 15,290	$ 24,483
$200 million - $399 million	$ 17,110	$ 25,113
$400 million - $599 million	$ 19,700	$ 28,875
$600 million - $999 million	$ 22,414	$ 31,875
$1 billion - $2.999 billion	$ 25,146	$ 31,895
$3 billion - $4.999 billion	$ 31,399	$ 39,121
$5 billion and over	$ 36,548	$ 48,428
Average	$ 23,676	$ 35,960

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1986 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under $11,000	20.0%
$11,000 - $16,999	5.0%
$17,000 - $24,999	15.0%
$25,000 - $29,999	10.0%
$30,000 - $39,000	30.0%
$40,000 and over	20.0%
TOTAL	100.0%
Average	$27,051

Highest Paid Director (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$ 27,051	$ 46,080
Banks and other Financial Institutions	$ 28,962	$ 48,706
Insurance companies	$ 30,756	$ 54,626
Service companies	$ 27,890	$ 43,353
Industrials		
Under $200 million	$ 18,075	$ 27,639
$200 million - $399 million	$ 20,111	$ 31,534
$400 million - $599 million	$ 19,288	$ 26,900
$600 million - $999 million	$ 25,526	$ 38,211
$1 billion - $2.999 billion	$ 29,297	$ 41,511
$3 billion - $4.999 billion	$ 37,184	$ 50,677
$5 billion and over	$ 48,366	$ 81,151
Average	$ 28,572	$ 46,665

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	86.4%	91.5%
Directors' Liability Insurance	81.8%	84.1%
Deferral of Board Fees Until Retirement	59.1%	66.8%
Matching Educational Gifts Programs	31.8%	47.2%
Accident Insurance	45.5%	41.2%
Pension/Retirement Income Plan	22.7%	25.4%
Life Insurance	27.3%	23.3%
Travel Expenses for Spouse	14.3%	22.7%
Medical Insurance	13.6%	12.6%
Stock Options	9.1%	8.2%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	9.1%
40 - 70	22.7%
71 - 100	31.8%
101 - 130	22.7%
131 - 160	9.2%
No Response	4.5%
TOTAL	100.0%
Average	86 hours

Type and Size of Company	Number of Hours	Upper Quartile Average
	Hours	
Retailers	86	134
Banks and Other Financial Institutions	107	183
Insurance companies	134	296
Service companies	108	197
Industrials		
Under $200 million	94	149
$200 million - $399 million	99	184
$400 million - $599 million	106	200
$600 million - $999 million	120	215
$1 billion - $2.999 billion	109	174
$3 billion - $4.999 billion	137	249
$5 billion and over	153	254
Average	114	204

9B. How are outside directors located for the board?

	% 1985	% 1986
Recommended by chairman	75.9%	81.8%
Recommended by board members	79.3%	81.8%
Nominating committee	69.0%	68.2%
Recommended by other corporate officers	46.4%	31.8%

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1986
Yes	17.0%	31.8%
No	83.0%	68.2%
Total	100.0%	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	42.9%
Increasing legal liability	28.6%
Conflict of interest	28.6%
On too many boards	28.6%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Financial results	50.0%	81.8%	90.9%
Strategic planning	31.8%	77.3%	81.8%
Financing/Capitalization	---	13.6%	40.9%
Corporate takeovers	9.1%	9.1%	22.7%
Management succession	4.5%	4.5%	18.2%
Day-to-Day operations	---	4.5%	9.1%
Industrial competition	---	---	9.1%
Mergers/Acquisitions	---	---	9.1%
Executive compensation	---	---	4.5%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 17 countries.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
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